

CITY OF MORGAN HILL REDEVELOPMENT AGENCY IMPLEMENTATION PLAN

January 1, 2005- December 31, 2009

Prepared by:

**City of Morgan Hill
Department of Business Assistance and Housing Services Department
December, 2004**

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I. BACKGROUND

The passage of the Redevelopment Reform Act of 1994, AB1290, brought wide sweeping changes to California Community Redevelopment law. Amongst the changes, AB 1290 required redevelopment agencies to prepare and adopt five year Implementation Plans in order to ensure a higher level of public accountability. Implementation Plans must be adopted after a noticed public hearing, and must be reviewed and updated when they expire. California Community Redevelopment Law ("CCRL") specifically requires that Implementation Plans contain the following information:

- A description of an agency's goals and objectives for the redevelopment project area;
- A list and description of proposed programs, including potential projects, and estimated expenditures therefore, for the next five years;
- A description of the link between an agency's goals and objectives, programs and expenditures, and the elimination of blight within the project area, and
- A description of how a redevelopment agency will increase, preserve and/or improve the supply of affordable housing, and how it will meet its inclusionary and replacement housing requirements.

II. INTRODUCTION

On June 3, 1981, the Morgan Hill Redevelopment Agency (the "Agency") adopted the Community Development Plan of the Ojo De Agua Community Development Project (the "Redevelopment Plan"). Along with the Redevelopment Plan, the City Council approved the Report to the City Council on the Ojo De Agua Community Development Plan. This report substantiated the need for redevelopment in the community e.g., "to eliminate and reduce many aspects of visual, economic, physical and social blight" within the Redevelopment Project Area (the "Project Area").

The Agency prepared its first Implementation Plan in November 1994 (the "Plan"). The Plan was amended in October 1996. In November 1997, the Agency prepared a mid-term report to review the Agency's accomplishments during the first three years of the Plan. A second

Implementation Plan was approved in December 1999. A mid-term review of that plan was prepared in December 2002.

In March 1999, the Agency adopted a Report to the City Council which supported amending the original 1981 Ojo de Agua Redevelopment Plan. The report concluded that there is still a need for redevelopment in Morgan Hill. In April 1999, the Agency amended its Redevelopment Plan to:

1. Raise the cap as to the amount of tax increment which can be collected by the Agency within the Project Area from \$100,000,000 to \$247,000,000, net of the required payment to affected taxing entities;
2. Modify the projects list included in the original Redevelopment Plan; and
3. Extend various time limits related to establishing and paying indebtedness, and receiving property taxes.

This document is the Agency's third Implementation Plan. It covers the period from January 2005 through the end of December 2009.

The Plan is divided in sections to address the following topics:

- Definition of Blight;
- Description of Existing Blighting Conditions Within the Project Area
- Non-Housing Accomplishments (2000-2004);
- Goal and Objectives for the Project Area (2005-2009);
- Proposed Non-Housing Programs, Projects and Expenditures (2005-2009);
 - Available Funding for Non-Housing Projects and Programs (2005-2009);
 - How the Goals and Objectives, Non-Housing Programs, Projects and Expenditures will eliminate Blight in the Project Area;
- Affordable Housing Requirements;
 - Housing Production Accomplishments and Projections;
 - Housing Set-Aside Accomplishments and Projections;
 - How the Affordable Housing Goals and Objectives, Programs, Projects and

Expenditures will Eliminate Blight in the Project Area;

- City-Wide Housing Development Beyond 2009;
- Plans for Using Annual Deposits to the Housing Set-Aside Fund;
- Proposed Locations for the Replacement Housing the Agency will be required to Produce; and
- Compliance with the City's General Plan Housing Element.

III. DEFINITION OF BLIGHT

The following is an excerpt from Health and Safety Code Sections 33030 and 33031 containing the blight definitions. Blight eradication can be categorized in two ways: the removal of physical conditions that cause blight and the removal of economic conditions that cause blight.

A. Physical Conditions That Cause Blight

1. Buildings in which it is unsafe or unhealthy for persons to live or work. These conditions may be caused by serious building code violations, dilapidation and deterioration, defective design or physical construction, faulty or inadequate utilities, or other similar factors.
2. Factors that prevent or substantially hinder the economically viable use or capacity of buildings or lots. This condition may be caused by a substandard design, inadequate size given present standards, lack of parking, or similar factors.
3. Adjacent or nearby uses which are incompatible with each other and prevent the economic development of those parcels or other portions of the project area.
4. The existence of subdivided lots of irregular form and shape and inadequate size for proper usefulness and development that are in multiple ownership.

B. Economic Conditions That Cause Blight

1. Depreciated or stagnant property values or impaired investments, including, but not necessarily limited to, those properties containing hazardous wastes that require the use of agency authority as specified in Article 12.5 (commencing with Section 33459).
2. Abnormally high business vacancies, abnormally low lease rates, high turnover rates,

- abandoned buildings, or excessive vacant lots within an area developed for urban use and served by utilities.
3. A lack of necessary commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, banks and other lending institutions.
 4. Residential overcrowding or an excess of bars, liquor stores, or other businesses that cater exclusively to adults or that have led to problems of public safety and security.
 5. A high crime rate that constitutes a serious threat to public safety and welfare.

C. Other Conditions that Cause Blight

1. An area that is characterized by the existence of inadequate public improvements, parking facilities or utilities.

IV. DESCRIPTION OF EXISTING BLIGHTING CONDITIONS WITHIN THE PROJECT AREA

The original Report to the City Council on the original Redevelopment Plan substantiated the existence of blighting conditions in the Project Area. Despite substantial accomplishments in the Project Area since 1981, all of the objectives of the original Plan have not been met and blight still exists throughout the Project Area. The continued existence of blight in the Project Area is documented in the March 1999 Report to the City Council Prepared for the Amendment to the Community Development Plan for the Ojo De Agua Community Development Project, which is incorporated herein by reference and available for review in the Department of Business Assistance and Housing Services.

V. NON- HOUSING ACCOMPLISHMENTS (2000-2004)

The following is a list of the projects and programs completed by the Redevelopment Agency over the last five years. The dollar amounts posted reflect the Agency contributions in this reporting period. They do not reflect total project costs or Agency contributions before this Implementation Plan or obligations beyond this period. Please refer back to Section III for a description of blight removal categories.

A. Community Facilities

Blight Removal Category: B3

1. Morgan Hill Community and Cultural Center: land acquisition, design, and construction of a community and cultural center complex consisting of large and small multi-purpose rooms, a commercial kitchen, meeting rooms, a children's activity annex, an outdoor amphitheater, and a satellite campus for Gavilan

Community College

Project status: Completed December 2002

Total cost during this reporting period: \$18,000,000¹

2. Morgan Hill Community Playhouse: part of the Community and Cultural Center Complex, the Playhouse project relocated, renovated and expanded a historic church to serve as a 187-seat performing arts theater

Project status: Completed January 2003

Total cost during this reporting period: \$3,000,000

3. Morgan Hill Aquatics Center: land acquisition, design, and construction of a 50-meter competition pool, a 6,000 square foot recreation and instructional pool, locker area, and parking area

Project status: Completed June 2003

Total cost during this reporting period: \$9,300,000

4. Morgan Hill Library: land acquisition, design and construction of a 28,000 square foot library building

Project status: Acquired land; the new building is in the design stage

Total cost during this reporting period: \$2,000,000

5. Morgan Hill Indoor Recreation Center: land acquisition, design, and construction of an intergenerational facility which will include a gymnasium, indoor pool, and dedicated youth and senior spaces

Project status: Land acquisition and construction drawings have been completed

Total cost during this reporting period: \$6,500,000

6. Downtown Transit Center “at Grade” Pedestrian Crossing: designed and constructed an “at grade” pedestrian crossing from the Caltrain Park-and-Ride lot leading across the railroad tracks to the City’s Train Station

Project status: Completed Spring 2003

Total cost during this reporting period: \$315,000

7. New Police Department Building: project management for the acquisition of an existing industrial building, design of tenant improvements, and construction for a new police department building

¹ Approximately \$10 million of the \$18 million is funding from the “old” Redevelopment Plan.

Project Status: Completed

Total cost during this reporting period: \$0 by the Redevelopment Agency; the Redevelopment Agency provided only for the project management

B. Park Facilities

Blight Removal Category: B3

Sports Field Complex: land acquisition and preliminary design for a large sports complex for organized outdoor sports (i.e., 6 soccer fields and 10 baseball/softball fields with lights, concession stands, restrooms and parking)

Project Status: Completed land acquisition and preliminary design; design not funded by the Redevelopment Agency

Total cost during this reporting period: \$7,650,000

C. Street Improvement Projects

Blight Removal Category: A2, C1

1. Pavement and Sidewalk Rehabilitation Program: involves the rehabilitation of existing street and sidewalk surfaces at various locations within the Redevelopment Project Area.

Project status: Completed the rehabilitation of numerous roadway and sidewalk segments

Total cost during this reporting period: \$3,550,000

2. Butterfield Boulevard: land acquisition and construction of a multi-lane arterial that will connect Cochrane Road to Watsonville Road

Project status: Completed sections from Cochrane Road to Main Avenue, and Dunne Avenue to Tennant Avenue

Total cost during this reporting period: \$9,800,000

3. New Signal Construction: contributed to the cost of new or modified traffic signals at the following intersections: Butterfield Boulevard/Diana Avenue.

Project status: Completed

Total cost during this reporting period: \$250,000

4. Local/Collector Street Construction/Reconstruction: storm drain, sidewalk and street construction/reconstruction of collector streets to improve drainage and provide pedestrian and vehicular improvements at the following locations: the area bounded by Warren Avenue/Nob Hill Terrace and the area bounded by Central Avenue, Lindo Lane, Wright Avenue, and Monterey Road

Project status: Completed

Total cost during this reporting period: \$620,000

5. Tennant Avenue Widening: acquisition of right-of-way and the widening of Tennant Avenue from two to four lanes from Vineyard Boulevard to Monterey Road.

Project status: Completed land acquisition only
Total cost during this reporting period: \$800,000

D. Flood Control Projects

Blight Removal Category: A2, C1

Butterfield Channel Land Acquisition: land acquisition for the construction of the Butterfield Boulevard channel from San Pedro Avenue to Tennant Avenue.

Project status: Completed land acquisition
Total cost during this reporting period: \$215,000

E. Water and Sewer Projects

Blight Removal Category: A2, C1

New Water Mains: new Santa Teresa Boulevard water main.

Project status: Completed
Total cost during this reporting period: \$350,000

F. Economic Development Projects

Blight Removal Category: A1, A2, A3, B1, B2, B3, C1

1. General Economic Development Programs: develop specific programs to increase private investments, create jobs, and increase tax revenue in Morgan Hill.
 - A. Worked with regional, state, and local economic development agencies to foster and promote economic development including Joint Venture Silicon Valley, Silicon Valley Manufacturing Group, Morgan Hill Chamber of Commerce Economic Development Partnership (EDP), and the Morgan Hill Downtown Association
 - B. Provided seed money for the initial operations of the Morgan Hill Downtown Association, and the Sister Cities Committee
 - C. Promoted Morgan Hill through the preparation of marketing materials, advertisements, press releases, participation in trade shows, and sponsoring two business attraction seminars targeting brokers, developers, and business representatives
 - D. Continued to promote and implement the Sewer/Traffic Fee Deferral Program (3 loans issued)

- E. Developed, funded and implemented the Small Business Fee Deferral Program (4 loans issued) and the Utility Under-grounding Fee Deferral Program (2 Loans issued)
 - F. Provided business assistance including general information, site selection assistance, development processing assistance, and ombudsman services to over 1,500 businesses; this includes multiple contacts from the same client
 - G. Prepared, commissioned and/or funded 13 special studies and plans including: the Downtown Design Plan Update, the Morgan Hill Plaza Re-use Study, and the Auto Dealer Strategy.
2. Encourage and facilitate retail development: develop specific programs to attract desired retailers to Morgan Hill.
- a) Provided ombudsman services to retail businesses that located, expanded, or were retained in Morgan Hill such as: the Cinelux Theaters, Home Depot, and Sinaloa Restaurant.
 - b) Provided 14 Façade Improvement Program grants including: Mama Mia's Restaurant, the "Yellow" House, and the Votaw Building.
 - c) Entered into development agreements with Harley Davidson/House of Thunder and the Ford Store
 - d) Provided financial incentives for the development of Safeway and Johnson Lumber
3. Promote small business development, expansion, and retention: develop specific programs to bring new small businesses into Morgan Hill and help existing small businesses expand.

As stated above, developed, funded and implemented the Small Business Fee Deferral Program (4 loans issued) and the Utility Under-grounding Fee Deferral Program (2 Loans issued)

4. Foster attraction of service commercial and light industrial uses: develop specific programs and pursue projects to attract service commercial and light industrial uses to Morgan Hill.
- a) Acquired property and worked with Santa Clara County to develop a joint master plan for a new Morgan Hill Justice Center

- b) Provided ombudsman services to encourage commercial/industrial businesses to locate, expand, or be retained in Morgan Hill such as: Media Arts Group, Alien Technology, U.S. Technical Ceramics, Digital Island Industrial Condominiums, Intercon Tools, Pieterbaugh and Lusamerica Fish. These services also included negotiating two Development Agreements with TBI and Venture Corporation to facilitate development in the City's two largest business parks. Over 2 million square feet of new or renovated commercial/industrial/retail space was developed in Morgan Hill.
 - c) Provided financial assistance to Specialized Bicycle Components and Anritsu to retain their corporate headquarters and expand their operations in Morgan Hill, respectively.
 - d) Provided loans to fund the offsite improvements for the Day Worker Center
6. Enhance and improve the Downtown: Undertake projects and develop programs to enhance and improve the Downtown, including:
- a) Provided initial funding for the formation of the Morgan Hill Downtown Association (MHDA). Provided funding to the MHDA to pursue the development of a Property based Business Improvement District (PBID).
 - b) Issued the Downtown Request for Concepts; received 23 responses and funded 3 proposals consisting of the Morgan Hill Art Guild, the Morgan Hill Center (formerly, the Nob Hill Shopping Center), and the Scoffone building renovation.
 - c) Issued the Downtown Request for Proposals (RFP).
 - d) Leased the Redevelopment Agency-owned Train Station building to a coffee vendor.
 - e) Issued a Request for Proposals for the old police facility. Entered into an Exclusive Right to Negotiate with El Toro Brewing Company for the rehabilitation and conversion of the building into a brewpub.
 - f) Provided financial incentives for the development of the Granary project
 - g) Approximately 80% of the Façade Improvement Grants were provided to Downtown properties (e.g. Maurizio's, the Downtown Café, and Jumpin' Juice and Java)
7. Preservation of historic buildings: utilize low interest loans and grants to assist community historic preservation efforts.
- a) Implemented a Development and Disposition Agreement for the relocation and

historic restoration of the old Morgan Hill Elementary School; the building now serves as a private elementary school, the Carden Academy

- b) Relocated, expanded and converted the historic Church building into the Morgan Hill Community Playhouse
 - c) Worked with the Morgan Hill Historical Society to develop a plan for the relocation and rehabilitation of the Morgan Hill Historical Museum and the Acton Farmhouse to the Villa Miramonte site
8. Downtown off-street parking lot development - development of additional off-street parking lots in the Downtown.
- a) Developed a public parking lot with over 250 spaces as part of the City's Community and Cultural Center, which includes a satellite campus of Gavilan Community College and a Community Playhouse.
 - b) Funded a Downtown Parking Management Plan.

VI. GOALS AND OBJECTIVES THE PROJECT AREA (2005-2009)

The general goals and objectives from the Agency's Amended Redevelopment Plan are to prevent the recurrence of and to eliminate the remaining conditions of blight in the Project Area. The goals and objectives of the Agency for the Project Area include the following:

- Providing for the continued planning, development, re-planning, redesign, clearance, redevelopment, reconstruction and rehabilitation of the Project Area for such structures and spaces as may be appropriate or necessary in the interest of the general welfare, including, without limitation, recreational and other facilities incidental or appurtenant to them;
- Providing for the alteration, improvement, modernization, reconstruction or rehabilitation of existing structures in the Project Area;
- Providing for open space uses;
- Providing for the development of public and private buildings, structures, facilities, and improvements; and,
- Providing for the replanning or redesign or development of undeveloped areas.

More specifically, the Agency proposes to:

- Promote and facilitate expansion and development of new and the retention of existing commerce and businesses to, among other benefits, improve employment opportunities and economic growth within the Project Area;
- Encourage the redevelopment of the Project Area through the cooperation of private enterprise and public agencies;
- Provide public infrastructure improvements such as the installation, construction and/or reconstruction of streets, utilities, facilities, structures, flood control facilities and projects, street lighting, undergrounding of overhead utility lines, sewer systems, and other improvements and actions which are necessary for the effective redevelopment of the Project Area;
- Provide for the development of community buildings and facilities which are necessary for the effective redevelopment of the Project Area;
- Continue to upgrade and improve the Downtown so that it will continue to serve as the social and commercial center of the community;
- When feasible, provide owner participation opportunities in conformance with the Amendment;
- Provide for the rehabilitation of buildings and other structures, especially those buildings, structures, and sites that are of architectural and/or historic value to the City, where determined financially feasible and where the structures can and will serve a significant purpose;
- Substantially balance the housing stock and economic base of the community;
- Encourage the enhancement of the residential neighborhoods in the City, especially in terms of basic livability for the residents of the Project Area;
- Increase, improve and preserve the community's supply of affordable housing, encourage housing improvement and rehabilitation, and encourage public and/or private initiatives, within the parameters of the City's Growth Management System, that preserve and enhance the supply of affordable housing throughout the Project Area;
- Provide for the minimum displacement of residential homeowners and provide relocation assistance where Agency activities result in displacement; and
- Preserve and enhance the "rural, small town" environment of Morgan Hill.

Additionally, the Agency will observe and work to fulfill the goals of the City's General Plan.

VII. PROPOSED NON-HOUSING PROGRAMS, PROJECTS AND EXPENDITURES (2005-2009)

Below are a list of those programs and projects that are proposed for the next five years. Program/project categories are highlighted in bold type. Underneath each category heading is a list of potential projects. While these programs and projects reflect the objectives of the Redevelopment Agency at this time, both internal and external factors such as City policy changes, reallocation of funds to other activities, the availability of funding from other governmental agencies, and the state of the economy, could impact which programs/projects are actually developed and the order in which they are undertaken. The number of categories has been reduced because of changes to priorities or the substitution of non-Agency funds for activities. For example, the flood control project category was eliminated and the funding for flood control projects was reallocated to community facilities to cover increased development costs. This decision was made as the effectiveness of the Agency's flood control projects was contingent on the federal government funding its flood control project (PL 566). We do not anticipate the federal government providing any significant money for the construction of PL 566 within the next five years.

The budget estimate column identifies the amount of Agency funds allocated to the project and anticipated to be spent. These estimates are subject to change due to a variety of factors such as inflation, design, change of Agency priorities, and timing. The budget estimate does not reflect previously spent Agency funds and does not represent total project costs because some of these projects have other funding sources contributing to its development. Some projects are marked with "*" which indicates that a portion of the project has been previously funded by the Agency, but the remaining project development costs will be funded with other sources. Some projects are included on the list in the event the Agency was to provide additional funding over the implementation period. To the extent possible, the funding for each category was analyzed to be consistent with the Agency's current direction regarding overall allocations to a specific category. For example, the Agency anticipates spending about \$11.3 of the total \$147M for administrative services. The remaining \$6.4M anticipated to be spent for administration takes that into account. Please refer back to Section III for a description of the blight removal categories.

A. Community Facilities

| <u>Project</u> | <u>Budget Estimate</u> |
|-----------------------------------|------------------------|
| • Library | \$12,400,000 |
| • Indoor Recreation Center | 20,000,000 |
| • Soccer Complex | 1,000,000 |
| • Sports Complex | * |
| • Aquatics Center(lease/purchase) | 3,100,000 |
| • Youth Center Expansion/New | * |
| <i>Subtotal (rounded)</i> | <u>\$36.5M</u> |

Blight Removal Category: B3

For the community facilities such as the Aquatics Center and Indoor Recreation Center, the estimates include costs encumbered in FY03-04 but expended in FY04-05. For simplification, the cost estimates for FY04-05 are entirely allocated to the costs to be incurred within this Five Year Plan period.

B. Street Improvements

Blight Removal Category: A1, C1

| <u>Project</u> | <u>Budget Estimate</u> |
|--------------------------------------|------------------------|
| • Tennant Avenue Widening | \$ 400,000 |
| • Street Pavement and Reconstruction | \$ 0 |
| <i>Subtotal (rounded)</i> | <u>\$ 400,000</u> |

The Agency has spent the \$15M allocated for street improvements under the Plan Amendment. The remaining project to be completed is the Tennant Avenue widening project. To provide the Agency some flexibility in the event it does allocate more funding to this category over the five year period, the street pavement and reconstruction activity was included, although it is currently unbudgeted.

C. Economic Development

Blight Removal Category: A1, A2, A3, B1, B2, B3, C1

| <u>Project/Program</u> | <u>Budget Estimate</u> |
|---|------------------------|
| • Property Management/Special Studies | |
| • Marketing | |
| • Business Attraction/Retention Programs | |
| • Projects and Programs to Enhance the Downtown | |
| • Facade Improvement Program | |
| • Business Assistance Loans/Grants | |
| • Impact and In-Lieu Fee Financing Programs | |
| • Downtown RFP Process | |
| • Implementation of the Downtown Plan (e.g., street/landscaping improvements) | |
| • Economic Development Partnerships | |
| • Morgan Hill Courthouse | |
| <i>Subtotal (rounded)</i> | <u>\$8.5M</u> |

This section includes key subcategories for projects and programs. The Economic Development (ED) category also includes the non-housing funding for the Downtown RFP process. Specific budgets for each subcategory are included in the annual budget, but change from year to year to reflect revisions in Agency priorities and development opportunities. For this reasons, only a cumulative cost has been included for the ED category.

D. Administration

\$7.0M

Grand Total About \$52.4M

Agency Administration includes employee salaries and benefits, supplies and materials, capital outlays, and prorated share of related general fund expenses (i.e., internal services).

VIII. AVAILABLE FUNDING FOR NON-HOUSING PROJECTS AND PROGRAMS (2005-2009)

The following table shows the Agency funds that are projected to be available to implement the proposed programs and projects.

Projected Annual Available Non-Housing Funds (2005-2009)

| <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>Total</u> |
|-------------|-------------|-------------|-------------|-------------|--------------|
| \$13.1M | \$14.0M | \$16.6 | \$8.7M | \$0 | \$52.4M |

In 1999, the Agency increased the amount of Tax Increment (TI) which could be collected by the Agency from \$100,000,000 to \$247,000,000, net of pass-throughs. As of October 2004, the Agency had collected \$78,821,752 for the previous five-year period. We anticipate reaching the cap of \$247,000,000 in FY07-08, during this five-year Implementation Plan period. At that time, the Agency will be unable to collect anymore tax increment unless it amends its fiscal cap prior to that final year.

During this five year period, the Agency intends to budget and spend all of the tax increment remaining to be collected over the life of the redevelopment plan. However, this Plan does not include the expenditure of any other revenues such as interest or loan repayments that the Agency may receive over the five year period.

To allow the Agency a smoother transition in the year it reaches the cap, this Plan anticipates fully funding administrative and economic development activities through FY07-08. The projected revenue available does not include any proceeds received from loan repayments or other revenues which could be used to fund Agency activities. Of the remaining \$68.2 million to be collected, about \$15.8 million (approximately 23%) is allocated for the Agency's Housing Set Aside Fund.

IX. HOW THE GOALS AND OBJECTIVES, NON-HOUSING PROGRAMS, PROJECTS AND EXPENDITURES WILL ELIMINATE BLIGHT IN THE PROJECT AREA

The goals and objectives of the Agency together with the proposed programs, projects, and expenditures over the next five years, will continue to eliminate blight in the Project Area.

The provision of Community Facilities, Street Improvements and Economic Development will assist in eliminating health and safety hazards and, in addition, will assist in eliminating factors which prevent or substantially hinder the economic viability or capacity of buildings or lots. The Economic Development activities will also help to ensure a strong and healthy local economy. All of these programs, projects, and activities will encourage private sector investment in the Project Area. The following illustrates how this will be accomplished:

A. Community Facilities

The lack of adequate facilities has a negative impact on the quality of life for residents, particularly for children. Involvement in social activities such as youth sports and clubs provides a positive outlet for young people, reduces the amount of idle time available, and refocuses youthful energies and activities. Juvenile crime would be anticipated to decline with the completion of the projects on the projects list. Additionally, the creation of a physically attractive environment, rich in activities for all ages, results in community pride which spurs home and community investment, and ultimately, raises the standard of living for everyone. The appreciation of property values is the likely outcome. In addition, the community facilities act as catalyst projects for economic development as many of the visitors to these facilities are from places other than Morgan Hill. They spend money at local businesses, restaurants and motels, thus encouraging more private investment to accommodate the need.

B. Street Improvements

Street improvements are necessary for several reasons. First, reconstructing dilapidated streets, providing sidewalks and bike paths, adding signalization, constructing medians, and modifying streets to accommodate changing traffic demands helps eliminate safety concerns. Second, new and expanded roadways are necessary to safely and efficiently handle and attract new residential, industrial, and commercial growth. Third, the new roadways provide safe and convenient access to different parts of the City, which makes Morgan Hill a more desirable place to live, work, and establish a business.

C. Economic Development

Leap frog and piece meal development, over the years, has resulted in incidences of inappropriately mixed-use development and areas of marginal economic viability. Combined with the physical factors of blight found in the Project Area, government intervention is necessary to spur private investment in the community. Economic Development projects and programs are intended to promote the economic vitality by attracting new businesses, retaining existing businesses, encouraging business expansion, creating and retaining jobs for residents, and bringing private sector support to the community. Providing economic development services helps to create a diverse economic base and stimulate revenues for needed City services.

X. AFFORDABLE HOUSING REQUIREMENTS

Each year, redevelopment agencies are required by law to “set-aside” not less than 20% of their tax increment revenues to increase the supply of affordable housing. In addition, redevelopment agencies are accountable for spending their “20% Set-Aside Funds” in a timely manner (the “Housing Set-Aside Requirement”) and also for producing affordable housing within the project area (the “Housing Production Requirement”).

A. Housing Set-Aside Requirement

CCRL requires that not less than 20% of all tax increment income generated by the project area is used for the purpose of increasing, preserving or improving the community’s supply of affordable housing.

B. Housing Production Requirement

CCRL also requires that at least 30% of all new or substantially rehabilitated housing units developed by an agency be available at affordable housing cost to, and occupied by, very low, low, and moderate-income households.² Specifically, not less than one-half of the 30% must be available at affordable housing cost to, and occupied by, very low-income households. Housing units that are “developed by an agency” are those units where the agency serves in the capacity of developer. To date, the Agency has not acted in this capacity.

Redevelopment law further requires that at a minimum, 15% of all new or “substantially” rehabilitated housing units developed within a project area by entities or persons other than a redevelopment agency, be available at affordable housing costs to, and occupied by, very low, low and moderate-income households. Specifically, at least 6% must be available at affordable housing costs to very low-income households, with the remaining 9% affordable to very-low, low or moderate-income households. Since the Agency has actively assisted affordable housing production, but has not served as developer, the Morgan Hill Redevelopment Agency is required to comply with this 15% affordable housing production requirement.

XI. HOUSING PRODUCTION ACCOMPLISHMENTS AND PROJECTIONS

The following summarize the Agency’s accomplishments in meeting its Housing Production Requirement for the term of the last reporting period, 2000-2004.

² Very low-income is defined as at or below 50% of median income for the statistical metropolitan area. Low-income is defined as above 50%, but below 80% of median, except in very high income areas (such as Morgan Hill), where it is capped at a lower level. Moderate-income is from Low-income to 120% of median. All income categories are further adjusted for household size.

A. Housing Production Accomplishments (2000-2004)

The Agency entered the last reporting period commencing January 1, 2000, with a 283 housing unit credit balance. In the VLI category, the Agency had a credit of 125 units, and 158 units in the LMI category. This credit balance alone would have been sufficient to meet the Agency's Housing Production requirement for the last reporting period (2000-2004).

Since 701 housing units were produced in the Project Area from 2000-2004, the Agency was required to assure that 105 affordable units were produced; 42 VLI and 63 LMI. However, 557 new and substantially rehabilitated affordable housing units were produced within the Project Area during this time frame, 412 of which were produced with Agency assistance; 145 units were produced without Agency assistance.

The majority of the unassisted units are produced as a direct result of the voter-initiated "managed growth" system, called the Residential Development Control System ("RDCS"). Under the RDCS, new housing production is limited annually to ensure the population ceiling of 48,000 in the year 2020. Competitions are held annually to award building allotments. Developers are encouraged to develop approximately 10% of their units as income-restricted, affordable housing in order to maximize their points in the competition. These units are known as Below Market-Rate Housing (BMR).

The Agency's new housing credit balance at the end of the last reporting period, December 31, 2004, will be 677 units and consist of 338 VLI and 339 LMI units.

Project Area Housing Production (2000 - 2004)

| Total Produced | % Required | Number Required | Number Produced | | | Units Lost ³ | Previous Credit | New Credit Balance |
|----------------|------------|-----------------|-----------------|------------|-------|-------------------------|-----------------|--------------------|
| | | | Assisted | Unassisted | Total | | | |
| 701 | VLI 6% | 42 | 271 | 40 | 311 | 56 | 125 | 338 |
| | L/Mi 9% | 63 | 141 | 105 | 246 | 2 | 158 | 339 |

It is important to note that these numbers do not include the over 500 units assisted through the Agency's Senior Housing or Mobile Home Repair Grants, or issued under the Agency's Housing Rehabilitation Loan Program. While monies spent in these programs go only to VLI and L/Mi households, the majority of the units do not meet the definition of "significantly rehabilitated" and/or the rents are not restricted long enough to count the units under CCRL.

Also not included in this housing count is the Agency's \$200,000 contribution to the Housing Trust of Santa Clara County (HTSCC). These funds are used by the HTSCC to assist affordable housing projects and/or provide closing costs for first-time home buyers

³ This number indicates homes lost as a result of Agency action.

in Morgan Hill. To date the HTSCC has provided 38 loans to residents and \$500,000 to an affordable housing project in town. This housing project, Murphy Ranch, received direct Agency assistance and the units are included in the housing counts above. The First-time homebuyer loans from the Housing Trust do not carry the CCRL required 45-year resale restrictions and are therefore also not counted.

The following table shows the specific affordable housing projects completed within the Project Area annually for the last reporting period. It shows both unassisted (e.g., BMR units) as well as Agency-assisted units produced in the Project Area, by income category.

Housing Production By Income Category (2000-2004)

| | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | |
|---------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unassisted | VLI | L/M | VLI | L/M | VLI | L/M | VLI | L/M | VLI | L/M |
| BMR | 4 | 6 | 0 | 10 | 0 | 16 | 0 | 20 | 0 | 17 |
| Terracina II | 36 | 36 | | | | | | | | |
| Assisted | | | | | | | | | | |
| Village Avante | 89 | 23 | | | | | | | | |
| Villa Ciolino | | | 40 | 2 | | | | | | |
| Murphy Ranch | | | | | | | 42 | 20 | | |
| Hacienda Mobile Hm. | | | | | | | | | 33 | 91 |
| Jasmine Square | | | | | | | | | 67 | 5 |
| Total | 129 | 65 | 40 | 12 | 0 | 16 | 42 | 40 | 100 | 113 |

Totals by income category are: 311 VLI and 246 LMI for a grand total of 557 affordable units produced 2000-2004. These numbers correspond with the table "Project Area Housing Production (2000-2004)," above.

With the exception of the Hacienda Mobile Home Park project, all of the above projects are either family ownership or rental projects developed by non-profit agencies. All the BMR unassisted units are primarily developed without Agency assistance but have resale restrictions.

Hacienda Mobile Home Park is a 165-unit senior mobile home park. The Agency provided a \$1.2 million loan to a non-profit agency to help maintain the affordability for 75% of the units. More than 380 rehab loans and grants were made to seniors at an Agency cost of \$1.2 million. The total senior commitment of \$2.2 million represents less than 13% of the total \$17.1 million in Housing Set-aside funds collected by the Agency from 2000-2004. The senior citizen population in Morgan Hill is 17% and therefore Morgan Hill is in compliance with CCRL requirements governing percentage use of funds.⁴

⁴ CCRL requires that an Agency's expenditure for senior housing be proportional to the percentage of seniors in the population.

B. Housing Production Projections (2005-2009)

The Agency anticipates that it will continue to exceed all of its Housing Production requirements through its housing rehabilitation programs, the creation of new affordable housing programs and projects, and through new BMR units.

Since the RDCS dictates the total number of units that can be developed each year, the total number of units to be built citywide over the next five years can be estimated. The average annual housing allotments allowed under the RDCS is 250 per year. It is estimated that 1,250 units will be produced from January 1, 2005 to December 31, 2009. In the prior Implementation Plan (2000-2004), it was projected that 55% of the housing units produced city-wide would be in the Project Area. Now, because of significant changes to the RDCS allocation system, up to 70% of the housing units could be built in the Project Area for the following reasons:

- The RDCS was modified to include specific allotment set-asides for: 1) Downtown, and 2) vertical mixed-use developments; and
- The City's General Plan is being amended to dramatically increase the densities in the Downtown.

These changes will result in more units being built in the Project Area than ever before.

The chart below estimates that 875 units (70% of 1,250) will be built in the Project Area from 2005-2009. Therefore, the Agency will be required to insure that 132 affordable units are produced in the Project Area: 53 VLI and 79 LMI. However, it is projected that 449 affordable units will be developed over the next five years: 181 VLI and 268 LMI.

Given the affordable housing unit credits accumulated through December 31, 2004 (677 units), the projected credit balance by December 31, 2009 is 994: 466 VLI, and 528 LMI.

Summary of Affordable Housing to be Produced (2005-2009)

| Total Anticipated | % Required | Number Required | Number Anticipated | | | Restricted Units Lost | Existing Credit | Projected Credit Balance |
|-------------------|------------|-----------------|--------------------|------------|-------|-----------------------|-----------------|--------------------------|
| | | | Assisted | Unassisted | Total | | | |
| 875 | VLI 6% | 53 | 181 | 0 | 181 | 0 | 338 | 466 |
| | L/MI 9% | 79 | 159 | 109 | 268 | 0 | 339 | 528 |

The following table shows the specific affordable housing projects estimated to be completed within the Project Area, annually for the next five years. It shows both Agency-assisted and unassisted (e.g., BMR units) units produced in the Project Area, by income category. The table includes projects approved, under consideration or proposed. It makes an assumption that an additional 59 VLI units and 82 LMI units will be assisted

by the Agency over the Plan period. However, it is unknown what type of units will be developed or assisted at this time. As with all projections, the actual number and type of units produced each year may differ from the estimate.

Anticipated Affordable Housing Production by Income Category (2005–2009)

| | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | VLI | L/MI | VLI | L/MI | VLI | L/MI | VLI | L/MI | VLI | L/MI |
| Unassisted | | | | | | | | | | |
| BMR | | 20 | | 20 | | 20 | | 20 | | 20 |
| Morgan Station | | 9 | | | | | | | | |
| Assisted | | | | | | | | | | |
| Murphy Ranch II | 15 | 23 | | | | | | | | |
| Viale | | 10 | | | | | | | | |
| Royal Court | | | | 9 | 56 | | | | | |
| Habitat/Villa Nova (proposed) | | | | | | | 6 | | | |
| Casa Diana (proposed) | | | | | | | | | 45 | 35 |
| Future Agency Assisted Projects | | | 20 | 30 | 20 | 30 | 15 | 15 | 4 | 7 |
| Assisted subtotals | 15 | 33 | 20 | 39 | 76 | 30 | 21 | 15 | 49 | 42 |
| TOTAL | 15 | 62 | 20 | 59 | 76 | 50 | 21 | 35 | 49 | 62 |

Totals by income category are: 181 VLI and 268 LMI for a grand total of 449 affordable units estimated to be produced 2005-2009. These numbers correspond with the projections shown in the table “Summary of Affordable Housing to be Produced (2005-2009),” above.

XII. HOUSING SET-ASIDE ACCOMPLISHMENTS AND PROJECTIONS

As mentioned above, CCRL requires that not less than 20% of all tax increment generated by a Project Area is used for the purpose of increasing, preserving or improving the community’s supply of affordable housing. The Agency’s obligations to assist in the development of affordable housing differ from its Housing Production obligations. The Housing Set-Aside requirement concerns itself with expending funds for affordable housing.

A. Housing Set Aside Accomplishments (2000-2004)

From 2000-2004, the Agency collected a total of \$17.1 million for its Housing Set Aside Fund. Following is the funding received annually over the last five years:

Annual Available Housing Set-Aside Funds (2000-2004)

| | | | | | |
|-------------|-------------|-------------|-------------|-------------|--------------|
| <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>Total</u> |
| \$1.8M | \$3.1M | \$3.6M | \$4.2M | \$4.4M | \$17.1M |

B. Housing Set Aside Projections (2005-2009)

The following table shows the Housing Set Aside funds the Agency anticipates collecting for each of the five years from 2005-2009.

Annual Anticipated Housing Set-Aside Funds (2005-2009)

| | | | | | |
|-------------|-------------|-------------|-------------|-------------|--------------|
| <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>Total</u> |
| \$4.3M | \$4.5M | \$4.7M | \$2.3M | \$0 | \$15.8M |

The numbers reflect the Agency reaching its cap of \$247 million in early FY2007-2008. Although the Agency will collect a reduced amount of Tax Increment for housing in 2008 and no Tax Increment in 2009, the Agency anticipates funding its housing activities during those years using housing reserves accumulated over that time.

Based on the City's Affordable Housing Strategy of 2003, incorporated herein by reference, the Agency anticipates using its Housing Set-Aside funds as follows.

Affordable Housing Units to Receive Agency Assistance from (2005-2009)

| Program | % | \$ | Avg. \$/U | Units |
|--|------------|------------|------------------|--------------|
| Affordable Ownership (New Construction) | 12 | 2.64M | 80,000 | 33 |
| Homebuyer Assistance Programs | 6 | 1.32M | 40,000 | 33 |
| Affordable Rental Development/Rehabilitation | 18 | 3.94M | 45,000 | 88 |
| Minor Home Repair Grants/SF Rehab * | 9 | 2.0M | 7,000 | 285 |
| Transit Oriented/Downtown Development | 13 | 2.85M | 50,000 | 57 |
| Special Needs Housing | 18 | 4.62M | 60,000 | 77 |
| Other Housing Activities | 8 | 1.76M | 25,000 | 70 |
| Administration | 16 | 3.52M | | |
| Total | 100 | 22M | | 643 |

*Note: The funding for the Minor Home Repair grants/SF Rehab is a subcategory of the Affordable Rental Development/Rehabilitation category. However, the units assisted with these funds will not count toward the Agency's production goals because the units are not restricted or do not qualify as substantial rehabilitation. We only included this subcategory in the above table because of the amount of funds allocated to these programs over the 5 year period.

Following is a description of the seven expenditure categories.

- Affordable Ownership (New Construction) - provides for the site acquisition and development of new ownership housing; also includes funding to purchase up to two BMR units per year, if necessary, in order to preserve their price-restricted status.
- Homebuyer Assistance Programs - provides down-payment assistance to qualified homebuyers.
- Affordable Rental Development/Rehabilitation - funds development and rehabilitation of rental projects; also includes the Senior and Mobile Home Repair Program grants and the Housing Rehabilitation Loan Program.
- Transit-Oriented/Downtown Development - is area specific funding targeting mostly higher density projects, both rental and ownership.
- Special Needs Housing - housing for special needs groups such as seniors or disabled persons.
- Other Housing - housing not included in any of the above categories, including mobile home park preservation and land banking.
- Administration - includes general staff support for Agency housing programs and projects, contract services with non-profit agencies for landlord/tenant assistance, shared housing referrals, and shelters for battered women (and their children), transitional housing, and administration for the Community Development Block Grant Program. Agency 20% Housing Set-Aside Funds provide only a portion of the overall funding for these services.

The Affordable Housing Strategy specifies a percentage for each of the desired housing types based on projected need. These percentages were used to determine the dollar amount to be spent by housing type over the five-year period. The Agency anticipates spending \$22 million over the next five years. To arrive at an estimated number of units to be produced by housing type, assumptions were made for the average per unit cost of developing the specified housing type (e.g., \$80,000 per unit for new ownership housing). The Affordable Housing Strategy also targets how the Agency funds should be spent per housing program category. In general, affordable ownership projects are targeted toward LMI households and rental/special need housing units are targeted toward VLI households. Overall, the Agency anticipates it will assist 340 households not including the 285 units assisted with the minor grant/SF rehab programs. Of the 340 units, 181 are VLI households and 159 are LMI households.

As of October 31, 2004, the Agency's 20% Housing Set-Aside Fund had an unrestricted fund balance of approximately \$6.8 million. This fund balance plus the financial projections in the table "Affordable Housing Units to Receive Agency Assistance from 2005-2009," above, were used to estimate the Agency's annual expenditures from 2005-2009. It is anticipated that the Agency will spend most of its Housing Set-Aside funds over the next five years. However, a minimal fund balance will remain at the end of the five year period.⁵

The following table estimates the annual expenditures over the next five years:

Projected Annual 20% Housing Set-Aside Expenditures (2005-2009)

| <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>Total</u> |
|-------------|-------------|-------------|-------------|-------------|--------------|
| \$5.8 M | \$5M | \$4.4M | \$3.8M | \$3M | \$22M |

XIII. HOW THE AFFORDABLE HOUSING GOALS AND OBJECTIVES, PROGRAMS, PROJECTS AND EXPENDITURES WILL ELIMINATE BLIGHT IN THE PROJECT AREA

The Agency's Affordable Housing goals and objectives together with the proposed programs, projects, and expenditures over the next five years, will help eliminate blight in the Project Area. Blight includes residential deterioration, impaired investment, and physical constraints to economic viability resulting in an inadequate housing stock. To meet the housing needs of City residents, the Agency anticipates allocating twenty-three percent of the tax increment received in the Project Area over the next five years towards affordable housing projects.

XIV. PROJECT AREA HOUSING BEYOND 2009

CCRL requires Agencies to address the Project Area's housing needs beyond the next five year period, beginning January 1, 2010. Specifically, comments regarding the next ten years (2010-2014) and the life of the Redevelopment Plan are requested.

Since it is projected that the Redevelopment Agency will reach its Tax Increment Cap in FY07-08, the Agency will have severely reduced resources for housing activities beginning in FY09-10. In FY09-10, the City of Morgan Hill will assume responsibilities for managing any on-going Agency programs/projects (i.e., loan administration, administration of the BMR Program, etc.). At that time, the only available funds for affordable housing production may come from outstanding Agency loan repayments, or outside sources unknown at this time. For these reasons, it is impossible to even estimate affordable housing projection beyond December 31, 2009. This, however, could change if the City decides to increase its fiscal cap and amend the

Redevelopment Plan.⁵

XV. PLANS FOR USING ANNUAL DEPOSITS TO THE HOUSING SET-ASIDE FUND

CCRL stipulates that redevelopment agencies cannot accumulate monies in their Housing Set Aside Fund beyond certain legally specified amounts. A condition of “excess/surplus” cannot be created whereby unexpended or unencumbered funds greater than \$1,000,000 or an amount exceeding the last four years of Housing Set-Aside deposits exists. Based on current programs, expenditures and projections, it is not anticipated that the Agency will have an “excess/surplus” in the next five years.

XVI. PROPOSED LOCATIONS FOR THE REPLACEMENT HOUSING THE AGENCY WILL BE REQUIRED TO PRODUCE

Within the next five years, 2005-2009, the Morgan Hill Redevelopment Agency has no plans to remove any units from the existing housing stock except as a component of a replacement housing project.

In the event that the Agency does remove any housing units, they will be replaced on at least a 1:1 basis as required under redevelopment law, with either new or rehabilitated units within four years of removal. The replacement units will be made available to persons of the same income level as those who occupied the original units before they were destroyed. The Agency will also impose recorded covenants on the replacement units regarding their long-term affordability in accordance with redevelopment law.

XVII. COMPLIANCE WITH THE CITY’S GENERAL PLAN HOUSING ELEMENT

The goals and projections outlined in this Implementation Plan conform to the City of Morgan Hill’s General Plan Housing Element. The Implementation Plan will be reviewed for conformance with the soon-to-be certified General Plan Housing Element. If there are discrepancies between the Implementation Plan and the Housing Element, the Plan will be modified to conform.

⁵ The current fund balance of \$6.8 million plus the anticipated five-year revenue of \$15.8 million equals \$22.6 million. Subtract the anticipated expenditures of \$22 million from the \$22.6 million leaves a balance of \$600,000 plus interest and any loan repayments made during the period.